

**Charlotte Community Library  
Charlotte, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2008**

Charlotte Community Library

Charlotte, Michigan

June 30, 2008

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Charlotte Community Library  
Charlotte, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Charlotte Community Library as of and for the year ended June 30, 2008, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charlotte Community Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Charlotte Community Library as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 3, 2008

Charlotte Community Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

As management of the Charlotte Community Library, we offer this discussion and analysis of the activities of the Library for the year ended June 30, 2008.

The discussion and analysis of financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the Library's financial statements which will immediately follow this section.

**Financial Highlights**

The following represent the most significant financial highlights for the year ending June 30, 2008:

- The assets of the Library exceeded its liabilities at the end of the fiscal year by \$2,251,776 (net assets) at the government-wide level.
- The Library's total net assets increased by \$179,371 as a result of current year activity at the government-wide level.
- At the close of the fiscal year, the Library's governmental fund reported a fund balance of \$661,568.
- Penal fines and donations were slightly higher than anticipated due to the state and national economies.

**Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Charlotte Community Library as a whole and present a longer-term view of the Library's finances.

The fund financial statements present a short-term view; they tell us how the taxpayer's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Library in more detail than the government-wide financial statements by providing information about the Library's General Fund.

**The Library as a Whole**

The following table shows, in a condensed comparative format, the net assets as of June 30, 2008 and 2007.

	<u>2007</u>	<u>2008</u>
<b>Assets</b>		
Current and other assets	\$ 521,376	\$ 678,905
Capital assets	<u>1,582,023</u>	<u>1,601,150</u>
Total assets	2,103,399	2,280,055
<b>Liabilities</b>		
Current liabilities	19,335	17,337
Noncurrent liabilities	<u>11,659</u>	<u>10,942</u>
Total liabilities	<u>30,994</u>	<u>28,279</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	1,582,023	1,601,150
Unrestricted	<u>490,382</u>	<u>650,626</u>
Total net assets	<u>\$ 2,072,405</u>	<u>\$ 2,251,776</u>

Charlotte Community Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

As previously stated, the total net assets of the Charlotte Community Library at the end of this fiscal year were \$2,251,776. Unrestricted net assets increased by \$160,244 to \$650,626 as of June 30, 2008.

The following table shows the changes in net assets in a comparative format for the years ending June 30, 2008 and June 30, 2007, respectively.

	<u>2007</u>	<u>2008</u>
<b>Revenues</b>		
Program revenue:		
Charges for services	\$ 22,180	\$ 23,874
Operating grants and contributions	3,292	126,777
General revenue:		
Property taxes	347,127	359,895
State Aid - unrestricted	22,957	18,961
Penal Fines	176,701	189,836
Interest	18,616	13,360
Miscellaneous	<u>930</u>	<u>13,970</u>
Total revenues	591,803	746,673
<b>Program Expenses</b>		
Library services/operations	<u>543,537</u>	<u>567,302</u>
<b>Change in Net Assets</b>	<b><u>\$ 48,266</u></b>	<b><u>\$ 179,371</u></b>

**Governmental Activities**

The Library's governmental revenues totaled \$746,673 with the greatest revenue being property taxes levied by the library. Property taxes make up approximately 48 percent of total governmental revenue.

The Library incurred expenses of \$567,307 during the year. As a special purpose government, all of the governmental expenses incurred are associated with the library service function.

**The Library's Fund**

The analysis of the Library's major fund begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the General Fund, not the Library as a whole. The Charlotte Community Library's Board of Trustees may create funds to help manage money for specific purposes as well as to show accountability for certain activities. The Library's only fund for the fiscal year ended June 30, 2008 was the General Fund.

Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the Library. The General Fund is a major fund for the fiscal year ended June 30, 2008 for financial reporting purposes as defined by GASB Statement #34.

The General Fund pays for the Library's governmental services. The sole service provided during the fiscal year was library services, which incurred expenditures of \$587,146 for the fiscal year.

The basic governmental fund financial statements can be found on pages 3 and 5 of this report.

Charlotte Community Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

**General Fund Budgetary Highlights**

The Library adopts an annual budget for the General Fund. A budgetary comparison statement has been provided as required supplementary information to demonstrate compliance with this budget.

The Library's amended budget shows that a total revenue budget exceeds a total expenditure budget by \$6,732. Actual revenues for the current year totaled \$746,673, which is \$198,305 higher than budgeted. This favorable difference is mainly due to \$126,777 of donation that was not budgeted and penal fines being \$68,133 higher than budgeted. The total expenditure budget was also \$541,637. Actual expenditures for the year totaled \$587,146, which was over the amended budget by \$45,509. This variance was mainly due to \$63,099 of building improvements that were not budgeted. The General Fund will therefore increase by only \$159,527 instead of the budgeted \$6,731.

**Capital Assets and Debt Administration**

At the end of the fiscal year, the Library had \$1,601,150 invested in building and improvements, equipment, furniture, and collections (net of accumulated depreciation). Additions included \$62,149 in buildings and additions, \$8,111 in equipment and furniture, and \$50,265 in materials added to the collection (as detailed in Note C to the financial statements).

No debt was issued during the fiscal year. The Library had no bonded indebtedness at June 30, 2008. The only long-term liability the Library had at June 30, 2008 was for compensated absences (as detailed in Note D to the financial statements) in the amount of \$10,942. This amount decreased \$717 in the current year.

**Contacting the Library's Management**

This financial report is intended to provide our citizens, taxpayers, and library users with a general overview of the Library's finances and demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Library's Financial Office at 226 S. Bostwick, Charlotte, Michigan 48813.

## **BASIC FINANCIAL STATEMENTS**



Charlotte Community Library  
STATEMENT OF NET ASSETS  
June 30, 2008

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 479,535
Due from other governmental units	<u>199,370</u>
Total current assets	678,905
Noncurrent assets	
Capital assets, net of accumulated depreciation	<u>1,601,150</u>
TOTAL ASSETS	2,280,055
LIABILITIES	
Current	
Accounts payable	4,181
Accrued liabilities	<u>13,156</u>
Total current liabilities	17,337
Noncurrent liabilities	
Compensated absences	<u>10,942</u>
TOTAL LIABILITIES	<u>28,279</u>
NET ASSETS	
Invested in capital assets	1,601,150
Unrestricted	<u>650,626</u>
TOTAL NET ASSETS	<u><u>\$ 2,251,776</u></u>

See accompanying notes to financial statements.

Charlotte Community Library

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Recreation and cultural	<u>\$ 567,302</u>	<u>\$ 23,874</u>	<u>\$ 126,777</u>	\$ (416,651)
General revenues:				
		Property taxes		359,895
		State aid - unrestricted		18,961
		Penal fines		189,836
		Investment earnings		13,360
		Other		<u>13,970</u>
		TOTAL GENERAL REVENUES		<u>596,022</u>
		CHANGE IN NET ASSETS		179,371
		Net assets, beginning of year		<u>2,072,405</u>
		Net assets, end of year		<u>\$ 2,251,776</u>

See accompanying notes to financial statements.

Charlotte Community Library  
GOVERNMENTAL FUND BALANCE SHEET  
June 30, 2008

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 479,535
Due from other governmental units	<u>199,370</u>
TOTAL ASSETS	<u><u>\$ 678,905</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 4,181
Accrued liabilities	<u>13,156</u>
TOTAL LIABILITIES	17,337
FUND BALANCE	
Unreserved	
Designated for:	
Special projects	297,443
Capital improvements	14,194
Subsequent years' expenditures	189,836
Undesignated	<u>160,095</u>
TOTAL FUND BALANCE	<u>661,568</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 678,905</u></u>

See accompanying notes to financial statements.

Charlotte Community Library

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

June 30, 2008

**Fund balance - governmental fund** **\$ 661,568**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 2,624,837	
Accumulated depreciation is	<u>(1,023,687)</u>	
Capital assets, net		1,601,150

Long-term liabilities are not due and payable in the current period the funds.  
and therefore are not reported as liabilities in the funds. Long-term liabilities  
at year-end consist of:

Compensated absences	<u>(10,942)</u>
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**Net assets of governmental activities** **\$ 2,251,776**

See accompanying notes to financial statements.

Charlotte Community Library

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
GOVERNMENTAL FUND

Year Ended June 30, 2008

	<u>General</u>
REVENUES	
Taxes	\$ 359,895
Charges for services	23,874
Intergovernmental	18,961
Fines and forfeits	189,836
Interest	13,360
Other	<u>140,747</u>
TOTAL REVENUES	746,673
EXPENDITURES	
Current	
Recreation and cultural	464,660
Capital outlay	<u>122,486</u>
TOTAL EXPENDITURES	<u>587,146</u>
NET CHANGE IN FUND BALANCE	159,527
Fund balance, beginning of year	<u>502,041</u>
Fund balance, end of year	<u><u>\$ 661,568</u></u>

See accompanying notes to financial statements.

Charlotte Community Library

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

**Net change in fund balance - governmental fund** **\$ 159,527**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$	120,525	
Depreciation expense		<u>(101,398)</u>	
Excess of capital outlay over depreciation expense			19,127

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in compensated absences		<u>717</u>	
<b>Change in net assets of governmental activities</b>		<u><u>\$ 179,371</u></u>	

See accompanying notes to financial statements.

Charlotte Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Under Public Act 24 of 1989, the City of Charlotte and the Townships of Carmel and Eaton created the Charlotte Community Library on December 1, 1998, which is considered a District Library. Public Act 24 defines the Library's legal status as "an Authority under Section 6 of Article IX of the State Constitution of 1963" thereby classifying the Library as a Michigan Municipal Corporation. The City and Townships collect and distribute property taxes that are levied by the Library. The Library has no stockholders, and all monies received are to be used for certain specified purposes in accordance with the by-laws of the Library.

The governing body of the Library is a board, which is comprised of seven (7) members, three (3) appointed by the City of Charlotte, two (2) appointed by the Township of Carmel, and two (2) appointed by the Township of Eaton. A Library Director is appointed by the board and is considered the executive officer of the Library.

The Charlotte Community Library's goal is to provide materials and services, which will furnish opportunities for educational, informational, recreational, and cultural needs of the community.

The financial statements of the Library have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and reporting principles. The Library's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity* (as amended by GASB Statement 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present all financial activities of the Charlotte Community Library. The Charlotte Community Library has no activities that would be classified as component units.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the Government-wide statements) present information for the Library as a whole.

The statement of activities presents the direct functional expenses of the Library and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the Library.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Library's only fund. The General Fund is the general operating fund of the Library and is considered a major fund. It is used to account for all financial resources of the Library.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**3. Measurement Focus - continued**

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**4. Basis of Accounting**

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Library before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recorded when due.

Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the Library receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

**5. Budgets and Budgetary Accounting**

The General Fund budget shown as required supplementary information to the financial statements was prepared on a basis consistent with the basis used to reflect actual results. The Library employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. The Library prepares the proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and resources to finance them.
- b. Prior to incurring significant expenditures, the budget is legally enacted through Library Board action.
- c. The budget is legally adopted at the total expenditure level and maintained at the account level.
- d. Budgeted amounts are reported as originally adopted or amended by the Library Board during the year.

**6. Cash and Cash Equivalents**

Cash and cash equivalents consist of money market checking and savings accounts.



Charlotte Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**7. Due from Other Governmental Units**

Due from other governmental units consists of penal fines, due from Eaton County, and State aid due from the State of Michigan.

**8. Property Taxes**

The participating City and Townships levy and collect property taxes for the Library. As the Library tax is collected it is remitted by the City and Township Treasurers. At March 1 each year, the City and Townships settle their delinquent taxes with the respective County Treasurer and the unpaid real property tax is remitted to the Library by the County Treasurer in Eaton County. Delinquent personal property taxes are retained by the Treasurers for subsequent collection. The Library is permitted by state statute to levy up to \$4 per \$1,000 of assessed valuation on property within the District. The voters approved a levy of .9 mills for a period of ten (10) years commencing December 1, 2008.

The 2007 taxable valuation of the communities included in the Library District totaled approximately \$423,894,390, on which ad valorem taxes levied consisted of .8568 mills for the Library's operating purposes. The ad valorem taxes levied based on this were approximately \$363,193. This amount, net of adjustments for board of review adjustments, Michigan Tax Tribunal adjustments, and personal property taxes returned delinquent, is recognized in the General Fund as tax revenue.

**9. Capital Assets**

Capital assets include buildings, equipment, and collection and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. Capital assets are those with an initial individual cost of \$1,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental fund. Instead, capital acquisition and construction are reflected as expenditures in the governmental fund and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	40 years
Equipment and furniture	5 - 50 years
Collections	5 - 40 years

**10. Compensated Absences**

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the Library has recorded all liabilities associated with compensated absences. Accumulated vested sick and vacation pay amounts and non-vested sick and vacation pay amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a noncurrent liability in the government-wide financial statements.

**11. Comparative Data**

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

Charlotte Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE B: CASH AND CASH EQUIVALENTS**

In accordance with Michigan Compiled Laws, the Charlotte Community Library is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

**Deposits**

Deposits of the Library are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Library. As of June 30, 2008, the Library accounts were insured by the FDIC for \$213,720 and the amount of \$267,168 was uninsured and uncollateralized.

There is a custodial credit risk as it related to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. As of June 30, 2008, the carrying amount of the Library's deposits was \$479,535 and the bank balance was \$480,888.

**Credit Risk**

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2008, the Library did not have any accounts that would be subject to rating.

Charlotte Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED**

Interest rate risk

The Library will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designating its investment portfolio with the objective of obtaining a rate of return through the economic cycles considering risk constraints and cash flow characteristics.

Custodial credit risk

The Library will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities listed in PA 20 of 1943, 129.91 section 1 and pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the Library will do business.

Concentration of credit risk

The Library will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio by security type to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Due to significantly higher cash flow at certain periods during the year, the amount the Library held as cash and cash equivalents increased significantly. As a result, the amount of the uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

**NOTE C: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
Capital assets being depreciated				
Buildings and additions	\$ 1,028,719	\$ 62,149	\$ -	\$ 1,090,868
Equipment and furniture	358,670	8,111	-	366,781
Collections	<u>1,158,626</u>	<u>50,265</u>	<u>( 41,703 )</u>	<u>1,167,188</u>
Totals at historical cost	2,546,015	120,525	( 41,703 )	2,624,837
Less accumulated depreciation for:				
Buildings and additions	( 87,184 )	( 30,753 )	-	( 117,937 )
Equipment and furniture	( 178,031 )	( 16,813 )	-	( 194,844 )
Collections	<u>( 698,777 )</u>	<u>( 53,832 )</u>	<u>41,703</u>	<u>( 710,906 )</u>
Total accumulated depreciation	<u>( 963,992 )</u>	<u>( 101,398 )</u>	<u>41,703</u>	<u>( 1,023,687 )</u>
Capital assets, net	<u>\$ 1,582,023</u>	<u>\$ 19,127</u>	<u>\$ -0-</u>	<u>\$ 1,601,150</u>

Charlotte Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE D: COMPENSATED ABSENCES**

The following is a summary of changes in compensated absences (including current portions) of the Library for the year ended June 30, 2008:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>	<u>Amounts Due Within One Year</u>
Compensated absences	\$ 11,659	\$ 13,834	\$ 14,551	\$ 10,942	\$ -

Significant details regarding outstanding long-term debt (including current portions) are presented below:

Compensated Absences

In accordance with Library personnel policies, individual employees have rights upon termination of employment to receive payment for unused vacation and sick leave under the formulas and conditions specified in the personnel policies. The dollar amount of these rights (vested and probable to vest) including related payroll taxes amounted to \$10,942 for compensated absences at June 30, 2008. This amount has been recorded in the government-wide financial statements.

**NOTE E: FUND BALANCE DESIGNATIONS**

Designated fund balance is used to earmark a portion of fund balance to indicate that it is not available for expenditure due to being segregated for a specific future use.

The following are the fund balance designations as of June 30, 2008:

General Fund	
Designated for special projects	\$ 297,443
Designated for subsequent years' expenditures	189,836
Designated for capital improvements	<u>14,194</u>
	<u>\$ 501,473</u>

**NOTE F: RISK MANAGEMENT**

The Library participates in a pool, the Michigan Municipal Liability and Property Pool, with other municipalities for auto, property, additional equipment, boiler and machinery, official bond and oath, crime, and liability losses. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Library has not been informed of any special assessments being required.

The Library also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Library has not been informed of any special assessments being required.

Charlotte Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE G: RETIREMENT PLAN**

Plan Description

The Library participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible (i.e., full-time) employees of the Library. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Library Board. The plan requires a contribution from the Director and Children's Librarian at 3.40 percent (under the B-3 benefit program) and the Library contributes the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended June 30, 2008, the Library's annual pension cost of \$24,732 for the plan was equal to the Library's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry actual age cost method. Actual required contributions are based on current monthly payroll times an actuarially computed employer contribution rate. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a 32 year period on a closed basis.

Three (3) year trend information

	Year Ended December 31,		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Actuarial value of assets	\$ 297,827	\$ 315,207	\$ 333,983
Actuarial accrued liability (AAL)	472,885	507,254	529,668
Unfunded AAL	175,058	192,047	195,685
Funded ratio	63%	62%	63%
Covered payroll	175,150	188,064	189,170
UAAL as a percentage of covered payroll	100%	102%	103%

	Year Ended June 30,		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Annual pension cost	\$ 24,239	\$ 24,712	\$ 24,732
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

Charlotte Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE H: POST-EMPLOYMENT HEALTH CARE BENEFITS**

The Library provides certain health care benefits for the Library Director who retired in June of 2000. The Library pays 22% per month toward the cost of health insurance premiums and the City of Charlotte pays 78%. If the Library's portion exceeds \$200 per month, it is the Library Director's responsibility to pay any amount above and beyond the \$200.

The cost of retirees' health care benefits is recognized as an expenditure as insurance premiums are paid. For the year ended June 30, 2008, those costs totaled \$1,422 and were paid from the General Fund.

The Governmental Accounting Standards Board has released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the new employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

**NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

In the required supplementary information to the financial statements, the Library's budgeted expenditures in the General Fund have been shown at the functional classification level. The approved budget for the Library has been adopted at the total expenditure level.

During the year ended June 30, 2008, the Library incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
Total expenditures	<u>\$ 541,637</u>	<u>\$ 587,146</u>	<u>\$ 45,509</u>

## **REQUIRED SUPPLEMENTARY INFORMATION**

## Charlotte Community Library

## General Fund

## BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 363,150	\$ 359,895	\$ 359,895	\$ -0-
Library fees	20,650	23,555	23,874	319
Intergovernmental	-	18,855	18,961	106
Penal fines	121,703	121,703	189,836	68,133
Interest	8,000	13,360	13,360	-0-
Other				
Donations	-	-	126,777	126,777
Other	800	11,000	13,970	2,970
TOTAL REVENUES	514,303	548,368	746,673	198,305
EXPENDITURES				
Recreation and cultural				
Salaries and wages	262,506	272,736	272,580	156
Payroll taxes	21,195	21,930	21,900	30
Fringe benefits	87,645	80,870	80,407	463
Utilities	24,400	24,400	23,259	1,141
Supplies	9,936	9,936	9,373	563
Printing	900	900	455	445
Repairs and maintenance	7,500	7,500	6,452	1,048
Insurance	8,895	7,795	7,795	-0-
Contractual services	35,775	47,103	40,250	6,853
Travel	900	975	970	5
Dues and memberships	1,000	1,000	965	35
Miscellaneous	300	300	254	46
Total recreation and cultural	460,952	475,445	464,660	10,785
Capital outlay				
Books and other materials	48,350	59,042	52,194	6,848
Memorial books	-	-	940	(940)
Furniture and equipment	5,000	7,150	6,253	897
Building improvements	-	-	63,099	(63,099)
Total capital outlay	53,350	66,192	122,486	(56,294)
TOTAL EXPENDITURES	514,302	541,637	587,146	(45,509)
NET CHANGE IN FUND BALANCE	1	6,731	159,527	152,796
Fund balance, beginning of year	502,041	502,041	502,041	-0-
Fund balance, end of year	\$ 502,042	\$ 508,772	\$ 661,568	\$ 152,796



Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA  
Alan D. Panter, CPA



**ABRAHAM & GAFFNEY, P.C.**

Certified Public Accountants

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MANAGEMENT LETTER

To the Board of Trustees  
Charlotte Community Library  
Charlotte, Michigan

As you know, we have recently completed our audit of the records of the Charlotte Community Library as of and for the year ended June 30, 2008. In connection with the audit, we would like to bring the following suggestion to your attention for your consideration.

The Library should prepare for implementation of GASB Statement #45.

The Governmental Accounting Standards Board has issued Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the new employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the Charlotte Community Library the year ending June 30, 2010.

The Library is subject to this new standard because it pays a portion (up to \$200 per month) toward the cost of health insurance premiums for the former Library Director who retired in June of 2000.

We would like the Board to be aware of this upcoming change and also suggest that the Library begin to discuss options for calculating the amount of the liability to be recorded in the statement of Net Assets. The Board has the option of contracting an actuary to determine the liability or calculating the liability using an alternate method described in GASB Statement No. 45.

This condition was considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements, and this report does not affect our report on the basic financial statements dated October 3, 2008.

This report is intended solely for the information of management and the Board of Trustees of the Charlotte Community Library and is not intended to be, and should not be, used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss this suggestion with you and to provide assistance in the implementation of improvements.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 3, 2008

#### Principals

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### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS

To the Board of Trustees  
Charlotte Community Library  
Charlotte, Michigan

We have audited the financial statements of the governmental activities and the major fund of the Charlotte Community Library as of and for the year ended June 30, 2008, which collectively comprise the Library's basic financial statements and have issued our report thereon dated October 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

#### PREPARATION OF FINANCIAL STATEMENTS

Statement on Auditing Standards No. 112 titled *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with accounting principles generally accepted in the United States of America. Throughout the year the Library prepares monthly financial reporting at the fund level. The annual audited financial statements for the year ended June 30, 2008 for the Library required few audit adjustments. This issue was noted and reported in our audit comments last year.

The staff at the Library understands substantially all of the information included in the financial statements, and as such are able to take responsibility for the content. However, the presentation of financial statements in accordance with generally accepted accounting principles also includes the preparation of government-wide financial statements and note disclosures. Currently the government-wide financial statements and note disclosures are prepared during the audit process.

## PREPARATION OF FINANCIAL STATEMENTS - CONTINUED

We are communicating these circumstances as required by professional standards, and do not see a need for any change in the situation at this time.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described below is a material weakness in internal control over financial reporting.

### MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Material journal entries for the proper recognition of capital outlay expenditures, due from other governmental units, cash, and payroll liabilities were proposed by the auditors. These misstatements were not detected by the Library's internal control over financial reporting. Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

We recommend that the Library take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance:

### BUDGETS

As noted in the financial statements, total General Fund expenditures of the Library exceeded the amounts appropriated. This issue was noted and reported in our audit comments last year.

Michigan Public Act 621 of 1978, as amended, provides that the Library adopt a formal budget for the General Fund, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We recommend the Library monitor expenditures against the adopted budget and make appropriate budget amendments as needed.

This report is intended solely for the information and use of management and the Board of Trustees of the Charlotte Community Library, others within the Library, and the applicable departments of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 3, 2008